MAY 2018

THE SUBJECT-MATTER OF THOSE ELEMENTS CONTAINED IN PART 5 OF BILL C-74:

AN ACT TO IMPLEMENT CERTAIN PROVISIONS OF THE BUDGET TABLED IN PARLIAMENT ON FEBRUARY 27, 2018 AND OTHER MEASURES

Report of the Standing Senate Committee on Energy, the Environment and Natural Resources

The Honourable Rosa Galvez, *Chair*

The Honourable Michael L. MacDonald, *Deputy Chair*

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CANADA

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THE COMMITTEE MEMBERSHIP

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The Honourable Michael L. MacDonald, *Deputy Chair*

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The Honourable Peter Harder, P.C. (or Diane Bellemare), or (Grant Mitchell)
The Honourable Larry W. Smith (or Yonah Martin)
The Honourable Yuen Pau Woo (or Raymonde Saint-Germain)
The Honourable Joseph A. Day (or Terry M. Mercer)

OTHER SENATORS WHO HAVE PARTICIPATED IN THE STUDY:

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PARLIAMENTARY INFORMATION AND RESEARCH SERVICES, LIBRARY OF PARLIAMENT:

Sam Banks and Jesse Good, analysts

SENATE COMMITTEES DIRECTORATE:

Maxime Fortin, Committee Clerk
Brigitte Martineau, Administrative Assistant

ORDER OF REFERENCE

Extract from the *Journals of the Senate*, Tuesday, April 24, 2018:

The Honourable Senator Bellemare moved, seconded by the Honourable Senator Cools:

That, in accordance with rule 10-11(1), the Standing Senate Committee on National Finance be authorized to examine the subject matter of all of Bill C-74, An Act to implement certain provisions of the budget tabled in Parliament on February 27, 2018 and other measures, introduced in the House of Commons on March 27, 2018, in advance of the said bill coming before the Senate;

That the Standing Senate Committee on National Finance be authorized to meet for the purposes of its study of the subject matter of Bill C-74 even though the Senate may then be sitting, with the application of rule 12-18(1) being suspended in relation thereto; and

That, in addition, and notwithstanding any normal practice:

1. The following committees be separately authorized to examine the subject matter of the following elements contained in Bill C-74 in advance of it coming before the Senate:

(*a*) the Special Senate Committee on the Arctic: those elements contained in Division 9 of Part 6;

(*b*) the Standing Senate Committee on Banking, Trade and Commerce: those elements contained in Divisions 2, 4, 5, 6, 7, 12, 16 and 19 of Part 6;

(*c*) the Standing Senate Committee on Foreign Affairs and International Trade: those elements contained in Division 8 of Part 6;

(*d*) the Standing Senate Committee on Legal and Constitutional Affairs: those elements contained in Divisions 15 and 20 of Part 6;

(*e*) the Standing Senate Committee on National Security and Defence: those elements contained in Part 4;

(*f*) the Standing Senate Committee on Energy, the Environment and Natural Resources: those elements contained in Part 5; and

(*g*) the Standing Senate Committee on Agriculture and Forestry: those elements contained in Part 5, insofar as that Part relates to farming;

2. The various committees listed in point one that are authorized to examine the subject matter of particular elements of Bill C-74 be authorized to meet for the purposes of their studies of those elements even though the Senate may then be sitting, with the application of rule 12-18(1) being suspended in relation thereto;

3. The various committees listed in point one that are authorized to examine the subject matter of particular elements of Bill C-74 submit their final reports to the Senate no later than May 31, 2018;

4. As the reports from the various committees authorized to examine the subject matter of particular elements of Bill C-74 are tabled in the Senate, they be placed on the Orders of the Day for consideration at the next sitting; and

5. The Standing Senate Committee on National Finance be simultaneously authorized to take any reports tabled under point four into consideration during its study of the subject matter of all of Bill C-74.

The question being put on the motion, it was adopted.

Richard Denis

Clerk of the Senate

INTRODUCTION

On 24 April 2018, the Standing Senate Committee on Energy, the Environment and Natural Resources received an order of reference from the Senate to conduct a study of the subject-matter of certain elements of Part 5 of Bill C-74, An Act to implement certain provisions of the budget tabled in Parliament on 27 February 2018 and other measures. The order of reference required that this committee report back to the Senate no later than 31 May 2018.

The committee concluded this pre-study on 24 May 2018. The committee held six meetings and heard from 30 witnesses across a range of stakeholder interests and received submissions of written evidence. Witnesses appearing before the committee to discuss the bill included the Minister of Environment and Climate Change Canada, officials from Environment and Climate Change Canada (ECCC) and the Department of Finance Canada, representatives of industry, public policy think tanks, economists, academics, environmental groups and the California Air Resources Board.

Part 5 of Bill C-74 (The Greenhouse Gas Pollution Pricing Act, or the GGPPA) addresses the federal approach to carbon pricing. It would apply in any Canadian province or territory that asks that it be implemented or that does not have its own carbon pricing system in place that conforms to the federal standard by the end of 2018. Currently, carbon pricing is in place in four provinces: British Columbia, Alberta, Ontario and Quebec; collectively, these provinces represent 80% of the Canadian population (for a list of remaining provincial and territorial carbon pricing plans, see the Library of Parliament publication Carbon Pricing Policy in Canada published on 26 February 2018).

THE GREENHOUSE GAS POLLUTION PRICING ACT: DESIGN AND IMPLEMENTATION

The GGPPA has two components: a carbon levy that is applied to a broad range of greenhouse gas (GHG) emitting fuels (a "fuel charge"), and an output-based pricing system (OBPS) for large industrial facilities that emit above a specified threshold, or whose voluntary application to register under the OBPS is approved by the minister. An overview of the GGPPA is provided in the Legislative Summary for Bill C-74.

According to the Minister of Environment and Climate Change, the objective of the GGPPA is to put a price on carbon pollution so that higher-emitting fuels are more

expensive to use than those that emit fewer GHGs.[1] This, the minister argued, will reduce emissions by motivating people to save energy by upgrading to more energy efficient equipment, and to save money by adopting and using cleaner energy. The minister further noted that the greater demand for clean energy will drive down the costs of clean innovation, which rewards clean choices, reduces emissions and spurs innovation. The minister pointed to the global trend in pricing carbon pollution, with carbon pricing in place in nearly half the world's economies.[2] Officials from ECCC added that if the federal government does not take action to meet its international climate change commitments, it is in no position to press other nations to do so.[3]

Officials from ECCC and the Department of Finance Canada explained that the GGPPA gives flexibility and guidance to provinces and territories wishing to implement their own pricing systems that conform to the federal standard. They explained that this approach recognizes the different types of carbon pricing systems that already operate in four provinces by setting a federal standard that allows provinces and territories to design their own pricing systems that align with a minimum stringency level.[4]

The Minister of Environment and Climate Change Canada argued that the federal government believes that it has the "sound legal authority for carbon pricing [...] under the Peace, Order and Good Government and Criminal Law authorities."[5] Nathalie Chalifour of the University of Ottawa's Faculty of Law was also of the opinion that the federal government has the authority to price greenhouse gas emissions.[6]

Important elements of the GGPPA will be implemented through regulations, which are not yet finalized. Such regulations include, for example, which facilities will be subject to the output-based system,[7] the output-based standard that will apply to each covered sector,[8] and the design of a federal offset credit system.[9] Officials advised

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[1] Senate, Standing Committee on Energy, the Environment and Natural Resources (ENEV), Evidence, 1st Session, 42nd Parliament, 22 May 2018 (The Honourable Catherine McKenna, P.C., M.P., Minister of Environment and Climate Change).

[2] According to the World Bank report, *State and Trends of Carbon Pricing 2017* there were 42 countries and 25 subnational jurisdictions that are putting a price on carbon.

[3] Senate, ENEV, Evidence, 1st Session, 42nd Parliament, 1 May 2018 (Officials, Environment and Climate Change).

[4] Senate, ENEV, Evidence, 1 May 2018 (Officials, Environment and Climate Change); Senate, ENEV, Evidence, 1st Session, 42nd Parliament, 1 May 2018 (Officials, Department of Finance Canada).

[5] Senate, ENEV, Evidence, 22 May 2018 (The Honourable Catherine McKenna, P.C., M.P., Minister of Environment and Climate Change).

[6] Senate, ENEV, Evidence, 1st Session, 42nd Parliament, 10 May 2018 (Nathalie Chalifour, Associate Professor, Faculty of Law, Common Law Section, University of Ottawa).

[7] Initially, output-based standards would be developed for the following industrial sectors: oil and gas, pulp and paper, chemicals, nitrogen fertilizers, lime, cement, base metal smelting and refining, potash, iron ore pelletizing, mining, iron and steel, and food processing.

8 Output-based standards will be developed for each covered industrial sector, or in some cases at the product level, or group of product level, within a sub-sector. These output-based standards will be used to

members that consultations on the development of these regulations with affected stakeholders are in the early stages.[10]

The Assembly of First Nations noted in a written submission that "in the creation of the [GGPPA], Canada failed to meaningfully consult, accommodate and obtain input from First Nations," and that "unilaterally imposing GHG pollution pricing schemes on First Nations would constitute a violation of First Nations' right to self-determination."[11] The Assembly of First Nations noted that there has been "limited, to no" First Nation participation in the comment period for the bill and proposed regulatory framework.[12, 13]

Several industry witnesses expressed that they are satisfied with their level of involvement in GGPPA consultations so far and are awaiting the publication of initial draft regulations before providing further comment on how they will implicate their specific industries.[14] The Cement Association of Canada, for example, told the committee that it is being consulted by the federal government, and that while an OBPS is "a proven approach to mitigating [GHGs] in principle," the details of the final regulations matter.[15] The Railway Association of Canada and the Canadian Trucking Alliance felt unsure that some points that they raised during consultations on the GGPPA are reflected in the text of the bill.[16]

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calculate the annual GHG emission limits of facilities with covered emission sources (e.g. fuel combustion, industrial processes, flaring, and some venting and fugitive sources) in those sectors.

9 The federal government has indicated that further details on the federal carbon offset system—an element of the compliance framework of the GGPPA—will be provided in a forthcoming guidance paper.

10 Senate, ENEV, Evidence, 1 May 2018 (Officials, Environment and Climate Change).

11Assembly of First Nations, Impacts of the Greenhouse Gas Pollution Pricing Act (Bill C-74 – An Act to implement certain provisions of the budget tabled in Parliament on February 27, 2018 and other measures) on First Nations, May 25, 2018, Written Response to the Standing Committee on Energy, the Environment and Natural Resources, received 25 May, 2018.

12 Ibid.

13 Rules governing the sale and taxation of fuels on reserve already exist, but the GGPPA is not explicit about how, or whether, a regime for carbon pricing on reserves in backstop jurisdictions will apply.

14 Senate, ENEV, Evidence, 1st Session, 42nd Parliament, 1 May 2018 (Peter Boag, President and Chief Executive Officer, Canadian Fuels Association); Senate, ENEV, Evidence, 1st Session, 42nd Parliament, 3 May 2018 (Isabelle Des Chênes, Executive Vice President, Chemistry Industry Association of Canada); Senate, ENEV, Evidence, 1st Session, 42nd Parliament, 3 May 2018 (Jim Grey, Chair, Renewable Industries Canada); Senate, ENEV, Evidence, 1st Session, 42nd Parliament, 3 May 2018 (Adam Auer, Vice President, Environment and Sustainability, Cement Association of Canada).

15 Senate, ENEV, Evidence, 3 May 2018 (Cement Association of Canada).

16 Senate, ENEV, Evidence, 1st Session, 42nd Parliament, 8 May 2018 (Michael Gullo, Director, Policy, Economic and Environmental Affairs, Railway Association of Canada); Senate, ENEV, Evidence, 1st Session, 42nd Parliament, 8 May 2018 (Jonathan Blackham, Director, Policy and Public Affairs, Canadian Trucking Alliance).

GENERAL DISCUSSION FROM WITNESSES

A. Carbon Pricing as an Economic Instrument

The Canada West Foundation, Canada's Ecofiscal Commission (Ecofiscal), Équiterre and Nature Canada expressed clear support for the GGPPA, stating that carbon pricing works, and is the lowest-cost approach to achieving Canada's GHG emission reduction goals.[17] Ecofiscal said the legislation ensures that carbon pricing that addresses competitiveness concerns applies nationally, while giving provinces and territories flexibility to create a pricing and revenue recycling system unique to their circumstances.[18] Nature Canada stated carbon pricing is "long overdue" and has been clearly demonstrated to be the most economically efficient way to reduce GHG emissions.[19] Équiterre also noted that, in pricing carbon, Canada is fulfilling an international commitment it made under the *Paris Agreement* and is joining the 67 jurisdictions that are putting a price on carbon.[20] Équiterre further pointed out that at least half of the economy in the United States is engaged in GHG reduction measures, from pricing carbon to regulatory programs.

Industry witnesses were supportive of efforts to reduce GHG emissions and supported well-designed carbon pricing mechanisms in general. For example, Renewable Industries Canada, the Cement Association of Canada, and the Chemistry Industry Association of Canada noted that carbon pricing is an effective tool to reduce GHGs.[21]

B. Competitiveness

The ability of Canadian businesses and industries to compete in a global marketplace where not all countries are subject to carbon pricing was a significant concern for several industry witnesses. Many felt that having to pay a carbon price in Canada would disadvantage them against competitors in unpriced jurisdictions. Their view is that carbon pricing will lead to commercial and emission leakage, driving business and

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[17] Senate, ENEV, Evidence, 1st Session, 42nd Parliament, 10 May 2018 (Martha Hall Findlay, President and Chief Executive Officer, Canada West Foundation); Senate, ENEV, Evidence, 1st Session, 42nd Parliament, 10 May 2018 (Dale Beugin, Executive Director, Canada's Ecofiscal Commission); Senate, ENEV, Evidence, 1st Session, 42nd Parliament, 24 May 2018 (Stephen Hazell, Director of Conservation and General Counsel, Nature Canada); Senate, ENEV, Evidence, 1st Session, 42nd Parliament, 24 May 2018 (Sidney Ribaux, Co-founder and General Manager, Équiterre).

[18] Senate, ENEV, Evidence, 10 May 2018 (Canada West Foundation); Senate, ENEV, Evidence, 10 May 2018 (Canada's Ecofiscal Commission).

[19] Senate, ENEV, Evidence, 24 May 2018 (Nature Canada).

[20] Senate, ENEV, Evidence, 24 May 2018 (Équiterre).

[21] Senate, ENEV, Evidence, 3 May 2018 (Cement Association of Canada); Senate, ENEV, Evidence, 3 May 2018 (Renewable Industries Canada); Senate, ENEV, Evidence, 3 May 2018 (Chemistry Industry Association of Canada).

investment out of Canada to unpriced markets while not contributing in any meaningful way to emission reductions.[22]

On the other hand, the Canada West Foundation and Ecofiscal suggested that global competition is affected by multiple factors including corporate tax rates, environmental policies, proximity to supply chains and the price of commodities, and cautioned that carbon pricing must be considered as a part within this larger context.[23] They, along with government officials and the Minister of Environment and Climate Change Canada, added that the GGPPA specifically seeks to address competitiveness for emissions-intensive and trade-exposed (EITE)[24] industries through the OBPS, as it is an intensity-based system that will give incentives to industries to reduce their emissions by improving their performance and producing fewer emissions per unit of output, rather than changing the amount produced or the levels of investment within Canada.[25] According to the California Air Resources Board, carbon leakage can also be minimized by linking interjurisdictional carbon pricing and emission trading mechanisms.[26] As noted by Équiterre, and others, Canada is not taking action alone on carbon pricing – several U.S. states are pricing GHGs and regulating emissions, as are many countries, which may mitigate competitiveness concerns somewhat.[27]

In addition to international competitiveness, competition may arise between differing provincial carbon pricing systems and the federally-managed carbon pricing system ("the backstop"). Accordingly, the Canadian Fuels Association and Canadian Independent Petroleum Marketers Association recommended that the federal backstop align with existing provincial regimes to ensure consistency, protect inter-jurisdictional competitiveness and prevent distortions within Canada.[28]

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[22] Senate, ENEV, Evidence, 3 May 2018 (Cement Association of Canada); Senate, ENEV, Evidence, 3 May 2018 (Renewable Industries Canada); Senate, ENEV, Evidence, 3 May 2018 (Chemistry Industry Association of Canada); Senate, ENEV, Evidence, 1 May 2018 (Canadian Fuels Association).

[23] Senate, ENEV, Evidence, 10 May 2018 (Canada West Foundation); Senate, ENEV, Evidence, 10 May 2018 (Canada's Ecofiscal Commission).

[24] Emissions-intensive: emits large amounts of greenhouse gases per unit of output; trade-exposed: competing in global markets and unable to easily pass on costs.

[25] Senate, ENEV, Evidence, 10 May 2018 (Canada West Foundation); Senate, ENEV, Evidence, 10 May 2018 (Canada's Ecofiscal Commission); Senate, ENEV, Evidence, 1 May 2018 (Officials, Environment and Climate Change); Senate, ENEV, Evidence, 22 May 2018 (The Honourable Catherine McKenna, P.C., M.P., Minister of Environment and Climate Change).

[26] Senate, ENEV, Evidence, 1st Session, 42nd Parliament, 24 May 2018 (Rajinder Sahota, Assistant Division Chief, California Air Resource Board).

[27] Senate, ENEV, Evidence, 24 May 2018 (Équiterre); Senate, ENEV, Evidence, 24 May 2018 (California Air Resource Board); Senate, ENEV, Evidence, 22 May 2018 (The Honourable Catherine McKenna, P.C., M.P., Minister of Environment and Climate Change).

[28] Senate, ENEV, Evidence, 1 May 2018 (Canadian Fuels Association); Senate, ENEV, Evidence, 1st Session, 42nd Parliament, 3 May 2018 (Jennifer Stewart, President and Chief Executive Officer, Canadian Independent Petroleum Marketers Association).

On a related note, to ensure cost predictability, transparency and alignment between jurisdictions, the Railway Association of Canada recommended that the Government of Canada require relevant provinces to disclose their intentions to accept the GGPPA before the legislation becomes law.[29] This will help railways have an accurate and clear understanding of fuel costs passed on to them by suppliers across various provinces.

Industry witnesses also called for a comprehensive review of the cumulative impacts of the suite of climate change policies throughout Canada at the federal and provincial levels, for their aggregate impact on competitiveness.[30]

C. Economic and Emissions Impact

Ecofiscal, and other witnesses, suggested that the macroeconomic impact of carbon pricing under the GGPPA may result in a marginal reduction in Canada's economic growth rate in the medium- to long-term, but that "at worst, carbon pricing would reduce growth rates by about one tenth of one percentage point."[31] Canada West Foundation emphasized that by phasing in an increasing carbon price over time, and providing certainty of policy direction through 2022, the GGPPA helps the business sector and individual Canadians plan for carbon pricing and adjust their strategies and investments accordingly, thus minimizing the economic impact of carbon pricing.[32]

The Minister of Environment and Climate Change noted that government projections of the expected emissions reduction associated with national carbon pricing in Canada could be as much as 90 megatonnes of CO_2e annually by 2030.[33] Ecofiscal noted that it projects similar ranges of emission reductions as ECCC, and greater levels of reduction if the carbon price continues to rise after 2021.[34]

D. Fairness and Equity

Many witnesses discussed that there are fairness and equity concerns regarding the disproportionate impacts that carbon pricing has, and will have, on different people, regions, businesses, and industries across Canada. Since carbon pricing systems are

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[29] Senate, ENEV, Evidence, 8 May 2018 (Railway Association of Canada).
[30] Senate, ENEV, Evidence, 3 May 2018 (Cement Association of Canada); Senate, ENEV, Evidence, 3 May 2018 (Renewable Industries Canada); Senate, ENEV, Evidence, 3 May 2018 (Chemistry Industry Association of Canada); Senate, ENEV, Evidence, 1 May 2018 (Canadian Fuels Association).
[31] Senate, ENEV, Evidence, 10 May 2018 (Canada's Ecofiscal Commission); Senate, ENEV, Evidence, 22 May 2018 (The Honourable Catherine McKenna, P.C., M.P., Minister of Environment and Climate Change); Senate, ENEV, Evidence, 24 May 2018 (Équiterre).
[32] Senate, ENEV, Evidence, 10 May 2018 (Canada West Foundation).
[33] Senate, ENEV, Evidence, 22 May 2018 (The Honourable Catherine McKenna, P.C., M.P., Minister of Environment and Climate Change).
[34] Senate, ENEV, Evidence, 10 May 2018 (Canada's Ecofiscal Commission).

regressive, a greater share of low-income Canadians' income is spent on carbon pricing than for higher-income Canadians; witnesses noted, however, that policy design can mitigate this effect.[35] Carbon pricing will also have a disproportionate impact on many northern and remote communities.[36]

Ecofiscal explained to the committee that provinces vary in terms of how much of their economies are emissions-intensive and trade-exposed, noting that only about 5% of the Canadian economy is emissions-intensive and trade-exposed, but that EITE industries are concentrated in specific provinces – for example, according to Ecofiscal, Alberta, which has been applying a price to GHG emissions since 2007, has an economy that is 18% EITE.[37]

Some industry witnesses were concerned that their specific sectors (chemicals, cement, biofuel production, road transport, and air transport) would be disproportionately impacted by carbon pricing because of a lack of technical and economic solutions for emission reduction.[38] Industry associations explained that their memberships will face increased carbon costs in backstop jurisdictions that will, to an extent, be passed on to consumers and/or workers, or will reduce profits. The following examples were provided to the committee:

- The Railway Association of Canada stated that its members' carbon costs for 2015 were $45 million dollars, and estimated that those costs would increase to $394 million by 2022 when carbon pricing reaches $50 per tonne;
- The Canadian Trucking Alliance estimates that at $50 per tonne, a carbon price of 14 cents per litre would add an extra $10,000 per truck per year in operating costs on an average $300,000 annual revenue;
- The National Airlines Council of Canada told the committee that with the current $35 per tonne carbon tax in British Columbia, the additional cost to the airline industry for intraprovincial flights in that province amounts to $2.5 to $3 million annually.

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[35] Senate, ENEV, Evidence, 24 May 2018 (Nature Canada); Senate, ENEV, Evidence, 10 May 2018 (Canada's Ecofiscal Commission); Senate, ENEV, Evidence, 22 May 2018 (The Honourable Catherine McKenna, P.C., M.P., Minister of Environment and Climate Change).

[36] Senate, ENEV, Evidence, 22 May 2018 (The Honourable Catherine McKenna, P.C., M.P., Minister of Environment and Climate Change); Senate, ENEV, Evidence, 1 May 2018 (Officials, Environment and Climate Change); Senate, ENEV, Evidence, 10 May 2018 (Canada's Ecofiscal Commission); Senate, ENEV, Evidence, 3 May 2018 (Canadian Independent Petroleum Marketers Association).

[37] Senate, ENEV, Evidence, 10 May 2018 (Canada's Ecofiscal Commission).

[38] Senate, ENEV, Evidence, 3 May 2018 (Chemistry Industry Association of Canada); Senate, ENEV, Evidence, 3 May 2018 (Cement Association of Canada); Senate, ENEV, Evidence, 3 May 2018 (Renewable Industries Canada); Senate, ENEV, Evidence, 8 May 2018 (Canadian Trucking Alliance); Senate, ENEV, Evidence, 1st Session, 42nd Parliament, 8 May 2018 (Massimo Bergamini, President and Chief Executive Officer, National Airlines Council of Canada).

- The St. Lawrence Shipoperators estimates that the fuel charge would increase the cost of fuel by 25% by 2021.[39]

The federal government will return the carbon revenues that it collects from the backstop to provinces and territories; carbon revenues can be freely used by provinces and territories, as discussed below, to mitigate the disproportionate impacts of carbon pricing. The federal government will continue to collect the GST, which will increase as carbon pricing increases.

E. Northern and Remote Communities

Committee members expressed concerns during its study that carbon pricing would have a disproportionate impact on many northern and remote communities, many of which have no economic and/or technical alternatives to diesel for heating and electricity generation. On this subject, the Minister of Environment and Climate Change Canada assured members that the federal government committed under the Pan-Canadian Framework on Clean Growth and Climate Change to working with the territories to find solutions that address their unique circumstances, including high costs of living and of energy, challenges with food security and emerging economies.[40]

Officials from ECCC advised committee members that they have been in regular contact and working with territorial governments in examining pricing options to enable jurisdictions and households to lower their emissions, thereby reducing their liability to carbon pricing. Funding from the Low Carbon Economy Fund has been set aside for these initiatives in each jurisdiction and a number of programs are identified under the Pan-Canadian Framework on Clean Growth and Climate Change to assist northern and remote communities in adopting renewable energy alternatives and reducing their reliance on diesel.[41] Ecofiscal noted that a combination of revenue recycling and complementary programs would mitigate the impact of carbon pricing on northern and remote communities, and support their transition to alternative energy sources and uses.[42]

In a written submission to the committee, the Government of Nunavut emphasized that because of its total reliance on diesel and the lack of workable alternatives for fuel

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[39] St. Lawrence Shipoperators, Written Response to the Standing Senate Committee on Energy, the Environment and Natural Resources, received 25 May 2018.
[40] Senate, ENEV, Evidence, 22 May 2018 (The Honourable Catherine McKenna, P.C., M.P., Minister of Environment and Climate Change).
[41] Senate, ENEV, Evidence, 1 May 2018 (Officials, Environment and Climate Change).
[42] Senate, ENEV, Evidence, 10 May 2018 (Canada's Ecofiscal Commission).

for transportation, heating and electricity generation, it differs from all other jurisdictions and requires special consideration.[43] They stated:

> *Each of Nunavut's 25 communities is remote and isolated. Unlike any other jurisdiction in Canada, no community in Nunavut is connected by road or rail. Shipping by sea is only possible during a few short months each summer. Nunavut's reliance on aviation for cargo and travel is unavoidable.*[44]
>
> ...
>
> *Nunavut communities rely almost entirely on burning diesel for heat and electricity, without the efficiencies of a grid (our communities are too far apart). While the GN is taking steps to encourage energy conservation and new types of energy production, the technologies for hydro, solar, wind or tidal generation remain, in industrially useful terms, either untested or unviable in Nunavut's Arctic.*[45]

The Government of Nunavut further advised that ECCC had recently finished but not yet shared with the territory a study to "assess, the potential impacts of carbon pricing in Nunavut ... [and to] identify, assess and propose possible solutions and opportunities to mitigate potential adverse economic effects in Nunavut." As a result, the territory has "yet to see how specifically the federal government proposes to recognize Nunavut's circumstances" through the backstop.[46]

F. Recycling Carbon Pricing Revenues

The bill requires the federal government to return direct revenues collected under the GGPPA to the province, territory or person from whom they were collected. Those jurisdictions or persons will decide how best to use the revenues based on their local priorities and context. Although the GGPPA does not specify how provincial and territorial governments should use the carbon pricing revenues that are returned to them under the backstop, witnesses nonetheless highlighted many potential ways that revenue could be recycled, including, for example:[47]

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[43] Government of Nunavut, Re: Part 5 of Bill C-74 – Greenhouse Gas Pollution Pricing Act, Written Response to the Standing Senate Committee on Energy, the Environment and Natural Resources, received 25 May 2018.
[44] Ibid.
[45] Ibid.
[46] Ibid.
[47] Senate, ENEV, Evidence, 3 May 2018 (Chemistry Industry Association of Canada); Senate, ENEV, Evidence, 3 May 2018 (Cement Association of Canada); Senate, ENEV, Evidence, 8 May 2018 (Railway Association of Canada); Senate, ENEV, Evidence, 8 May 2018 (Canadian Trucking Alliance); Senate, ENEV,

- to support EITE facilities' capital investments in low-carbon emission technologies, equipment and infrastructure;
- to mitigate the regressive impacts on vulnerable populations;
- to fund low-carbon research, development, and innovation; and
- to support low-carbon investments by Canadian households.

DISCUSSION REGARDING PART 1 – THE FUEL CHARGE

Part 1 of the GGPPA establishes a framework for enacting a fuel charge, at rates specified in Schedule 2 of the bill, to fuels that are produced, delivered or used in a listed province, brought into a listed province from another place in Canada, or imported into Canada at a location in a listed province. The bill sets out registration requirements for specified types of fuel for fuel distributers, importers, users, specified air carriers, air carriers, specified marine carriers, marine carriers, specified rail carriers, rail carriers or road carriers.[48] Each person's obligations and entitlements under Part 1 with respect to specified fuels depend on the person's registration status.

The following discussion summarizes the evidence that the committee heard relating to Part 1 of the GGPPA.

A. Fuel Distributors

The Canadian Independent Petroleum Marketers Association, which represents independent retailers or distributors of gasoline, argued that their products are already taxed and that carbon pricing would represent a financial burden on average Canadians.[49] Moreover, they stated that gasoline volumes have not declined in jurisdictions that already have carbon pricing in place and questioned how effectively the carbon levy rates set out in the GGPPA would affect consumer demand for fuels in the near term, particularly in light of existing taxes and fluctuating market prices for fuels. They recommended other policy measures to reduce emissions, including increasing renewable fuel mandates, removing older, higher-emitting vehicles from the road through "cash for clunker" programs, and increasing driver awareness on how to improve fuel efficiency.

Evidence, 10 May 2018 (Canada West Foundation); Senate, ENEV, Evidence, 10 May 2018 (Canada's Ecofiscal Commission); Senate, ENEV, Evidence, 1 May 2018 (Officials, Environment and Climate Change).

[48] At this time, no person, class of persons, circumstance or condition is proposed to be prescribed by regulations.

[49] Senate, ENEV, Evidence, 3 May 2018 (Canadian Independent Petroleum Marketers Association).

B. Road Carriers

The Canadian Trucking Alliance argued that fuel costs represent a large component of costs for road transport companies and that the association is concerned about the economic impact fuel charges under the GGPPA will have on its member companies.[50] Furthermore, they stated that there are limited low-carbon technology solutions available today to make large reductions in road transport emissions. Although the association was also concerned that the industry, which is comprised of many small businesses, could face a potential administrative burden due to GGPPA, they noted that a similar registration and reporting program – the *International Fuel Tax Agreement* – exists and that the industry is comfortable with that regime. They recommended recycling carbon pricing revenues to support technology research and development and other programs to support the industry.

C. Rail Carriers

The Railway Association of Canada recommended three specific changes to Part 1 of the GGPPA.[51] First, the association noted that the GGPPA explicitly references biodiesel, but not renewable diesel in its quantification methodology for light fuel oil and requested that these two products be treated the same under these rules. Second, it recommended that the GGPPA be amended to require fuel suppliers to disclose renewable or biodiesel blend rates, so that registered rail carriers do not overpay for the fuel they obtain or default their respective equipment warranties. Third, the association requested that the GGPPA regime clarify the rules related to net fuel quantity reporting of fuel imports by rail carriers from provinces not listed in the bill.

D. Air Carriers

As provided in the GGPPA, air carriers and specified air carriers are subject to the fuel charge set out in Part 1 and must register their use of specified fuels. However, the National Airlines Council of Canada felt that this form of carbon pricing is not suited to the commercial aviation industry arguing that the sector is trade-exposed and that carbon pricing would exacerbate commercial and carbon leakage.[52] Moreover, the association argued that because commercial aviation is a technologically mature sector and it is not possible to incentivize technological breakthroughs over the medium term, a carbon tax would do nothing to curb emissions unless individual routes were cancelled.

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[50] Senate, ENEV, Evidence, 8 May 2018 (Canadian Trucking Alliance).
[51] Senate, ENEV, Evidence, 8 May 2018 (Railway Association of Canada).
[52] Senate, ENEV, Evidence, 8 May 2018 (National Airlines Council of Canada).

The National Airlines Council of Canada recommended that Canada's commitments under the 2016 *Carbon Offsetting and Reduction Scheme for International Aviation* (CORSIA) agreement[53] be recognized in the Preamble to the GGPPA, and that Canada's commercial aviation industry be treated as an emission-intensive and trade-exposed industry under Part 2, rather than being subject to the fuel charge in Part 1 of the legislation. The association is currently in discussions with provincial governments to include commercial aviation as an industrial emitter in provincial carbon pricing plans.

Offering a different perspective, Ecofiscal believes that the GGPPA does not make the sector trade-exposed because the backstop only covers air carrier fuel use within Canada.[54] They explained that because all air carriers face the same market signal under the bill, costs can be passed onto consumers, and so the organization's main concerns are cost-related and not about trade-exposure.

E. Marine Carriers

Like air carriers, marine carriers are subject to the fuel charge in Part 1 of the GGPPA. The Chamber of Marine Commerce and the St. Lawrence Shipoperators (in a separate written submission) told the committee that marine carriers are internationally regulated by the International Maritime Organization (IMO) through Canadian legislation and regulations that implements IMO conventions.[55] The IMO recently adopted a strategy that seeks to reduce emissions by 50% from 2008 levels by 2050. That strategy is currently under development and there is no timeline for its coming into force. They stated that shipping is already the most efficient mode of transportation with the fewest GHGs per cargo carried, and that the marine mode has made significant investments in fuel-efficient ships and other technologies.

They seek to be exempted from the application of the GGPPA on the grounds that this sector would be more appropriately regulated under harmonized international marine emission regulations being developed by the IMO rather than unilateral regional regulations proposed by this legislation. The St. Lawrence Shipoperators added that the fuel charge will result in increased fuel costs. This would be "particularly harmful"

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[53] Canada is a signatory to CORSIA, an emissions reduction scheme under the International Civil Aviation Organization. This agreement, which comes into effect in 2021, caps international aviation emissions at 2020 levels and uses an offset-based system to address any annual increases in total emissions above those 2020 levels. It is voluntary from 2021 through 2026.

[54] Senate, ENEV, Evidence, 10 May 2018 (Canada's Ecofiscal Commission).

[55] Senate, ENEV, Evidence, 1st Session, 42nd Parliament, 24 May 2018 (Bruce Burrows, President, Chamber of Marine Commerce); St. Lawrence Shipoperators, Written Response to the Standing Senate Committee on Energy, the Environment and Natural Resources, received 25 May 2018.

for northern and remote communities, and Nunavut, that rely on marine transport for their supplies, as it will increase the cost of goods in those places.[56]

DISCUSSION REGARDING PART 2 – THE OUTPUT-BASED PRICING SYSTEM

Part 2 of the GGPPA establishes the output-based pricing regime of the backstop that applies to high-emitting industrial sectors. Part 2 is primarily enabling legislation for the OBPS; the details of the program will be developed through regulation. The OBPS sets an emission intensity performance standard for covered industry sectors, products, or product groups. The federal government will calculate production-weighted national emission intensity averages[57] for industry sectors, products, or product groups, and set an output-based standard for each. Government officials explained that, as a starting point, the government has proposed that the output-based standards be set at 70% of the production-weighted national emission intensity average.[58] They emphasized that the output-based standards are not yet finalized, that consultations are ongoing with industry and other groups about the regulatory framework, and that no decisions have been taken regarding whether the system will treat Canadian regions differently.

The following discussion summarizes the evidence that the committee heard relating to Part 2 of the GGPPA.

A. Design of the Output-Based Standards

The Cement Association of Canada recommends that the regulatory framework of the federal OBPS adopt three design elements that, in principle, are a "proven approach to mitigating carbon leakage": first, it should use a production-weighted emission intensity standard, which it does; second, it should distinguish between combustion-related and process-related emissions, which it does not; and third, it should recycle revenues to accelerate low-carbon capital investment at EITE facilities, which will depend on how provinces and territories recycle carbon revenues.[59]

As proposed, the federal OBPS sets output-based standards at 70% of the production-weighted national emission intensity average, but some industry witnesses felt that

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[56] St. Lawrence Shipoperators, Written Response to the Standing Senate Committee on Energy, the Environment and Natural Resources, received 25 May 2018.
[57] The production-weighted average is calculated as the total emissions of the sector (or grouping of products) divided by the total production of the sector (or grouping of products).
[58] Senate, ENEV, Evidence, 1 May 2018 (Officials, Environment and Climate Change).
[59] Senate, ENEV, Evidence, 3 May 2018 (Cement Association of Canada).

either the performance limit or the quantification methodology was inappropriate for their sectors. For example, the Chemistry Industry Association and the Canadian Fuels Association argued that their facilities are already among the lowest-emitting plants worldwide, that further emissions reductions are difficult to make, and that the OBPS put them at a competitive disadvantage with international competitors with higher GHG profiles that are not constrained by a carbon pricing system.[60] The Chemistry Industry Association of Canada called the 70% weighted average "the strictest we have ever seen around the world."[61] The association recommended that instead of setting output-based standards for their industry, products, or groups of products based on national production-weighted emission intensity averages, they should be based on global industry emission intensity averages.[62]

B. Application of the Output-Based Standards

Representatives from Renewable Industries Canada argued that biofuel producers are trade-exposed and that biofuel producers will be subject to the Clean Fuel Standard. Therefore, they considered that this sector should not be covered by the OBPS, and that the point of application of carbon pricing should move from the producer of biofuels to the distributor.[63]

As noted previously, the National Airlines Council of Canada recommended that its industry be covered by the OBPS, and not the fuel charge under Part 1 of the GGPPA.[64]

OBSERVATIONS AND RECOMMENDATIONS

The committee is pleased to submit this pre-study report on Part 5 of Bill C-74 to the Senate Standing Committee on National Finance. The committee supports the intention and policy approach of the GGPPA and makes the following observations and recommendations, respectfully asking that the Senate Standing Committee on National Finance include them in its report on Bill C-74 and request the government's response to these recommendations.

The committee is of the view that the GGPPA is an important bill and notes that while there is a rationale to establishing new federal tax instruments in a budget

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[60] Senate, ENEV, Evidence, 3 May 2018 (Chemistry Industry Association of Canada); Senate, ENEV, Evidence, 1 May 2018 (Canadian Fuels Association).
[61] Senate, ENEV, Evidence, 3 May 2018 (Chemistry Industry Association of Canada).
[62] Senate, ENEV, Evidence, 3 May 2018 (Chemistry Industry Association of Canada).
[63] Senate, ENEV, Evidence, 3 May 2018 (Renewable Industries Canada)..
[64] Senate, ENEV, Evidence, 8 May 2018 (National Airlines Council of Canada).

implementation bill, the GGPPA is significant and substantial enough to justify being examined as a self-standing piece of legislation with time for extensive study.

The committee notes that Part 2 of this bill consists, for the most part, of an enabling legislation that allows for a regulatory regime to be established, that the relevant regulations are not yet defined, and that the federal government is consulting affected stakeholders. As the details of these regulations have not been finalized, it is not possible for affected stakeholders or this committee to fully examine them to determine their impact. The committee notes that the GGPPA requires the Minister to report annually to Parliament on the administration of this act. The committee emphasizes the importance that this annual review must include an assessment of the impact and effectiveness of the legislation and regulatory framework.

The committee notes that several industry witnesses requested that their sectors receive special consideration with regard to the application of the GGPPA based on competitiveness concerns, either in terms of which part of the GGPPA applies to their sector (e.g. fuel charge or OBPS), or with regards to the stringency of the output-based standards that will be developed. The committee recommends that the government apply clear and transparent criteria as it proceeds with such determinations, ensuring that any special considerations for particular sectors consider fairness and equity concerns, as well as the degree to which a sector is emissions-intensive and trade-exposed. Canadian industry should not be placed at a competitive disadvantage with industry that is not subject to carbon pricing and therefore should be given special consideration.

The committee understands that the GGPPA regulatory framework sets a federal standard that gives provinces and territories flexibility to design their own carbon pricing systems that meet the standard, but the committee notes that differences between provincial, territorial and federal carbon pricing systems could create interjurisdictional competitiveness concerns.

The committee notes that the Assembly of First Nations, in its written submission to the committee, expressed serious concerns about the adequacy of the government's consultation process with First Nations on the bill and its regulations.

Finally, the committee notes the concern of the Government of Nunavut, expressed in its written submission to the committee, that it has not yet received a report from the federal government about the impact of carbon pricing on Nunavut or any proposed solutions that reflect the special circumstances of the territory with regards to its capacity, both technical and economic, to deploy GHG mitigation solutions.

APPENDIX: LIST OF WITNESSES

Tuesday, May 1, 2018	
Environment and Climate Change Canada	John Moffet, Associate Assistant Deputy Minister, Environmental Protection Branch Philippe Giguère, Manager, Legislative Policy
Department of Finance Canada	Gervais Coulombe, Director, Sales Tax Division, Tax Policy Branch Pierre Mercille, Director General (Legislation), Sales Tax Division, Tax Policy Branch) David Turner, Tax Policy Analyst, Sales Tax Division, Tax Policy Branch
Canadian Fuels Association	Peter Boag, President and Chief Executive Officer Lisa Stilborn, Vice President, Ontario Division
Thursday, May 3, 2018	
Canadian Independent Petroleum Marketers Association	Jennifer Stewart, President and Chief Executive Officer Allan MacEwen, President, MacEwen Petroleum Incorporated
Renewable Industries Canada	Jim Grey, Chair Andrea Kent, Board Member
Cement Association of Canada	Adam Auer, Vice President, Environment and Sustainability
Chemistry Industry Association of Canada	Isabelle Des Chênes, Executive Vice President Shannon Watt, Director, Environment and Health Policy

Tuesday, May 8, 2018	
VIA Rail Canada	Pierre Le Fèvre, Senior Advisor to the President and Chief Executive Officer Bruno Riendeau, Director, Safety and Sustainable Development Jacques Fauteux, Director, Government and Community Relations
Railway Association of Canada	Michael Gullo, Director, Policy, Economic and Environmental Affairs
National Airlines Council of Canada	Massimo Bergamini, President and Chief Executive Officer Geoffrey Tauvette, Co-Chair, Environment Committee and Director, Fuel and Environment, WestJet
Canadian Trucking Alliance	Jonathan Blackham, Director, Policy and Public Affairs
Thursday, May 10, 2018	
Canada West Foundation	Martha Hall Findlay, President and Chief Executive Officer
Canada's Ecofiscal Commission	Dale Beugin, Executive Director
As an Individual	Nathalie Chalifour, Associate Professor, Faculty of Law, Common Law Section, University of Ottawa
Thursday, May 22, 2018	
Environment and Climate Change Canada	The Honourable Catherine McKenna, P.C., M.P., Minister of Environment and Climate Change Stephen Lucas, Deputy Minister

Thursday, May 24, 2018	
Équiterre	Sidney Ribaux, Co-founder and General Manager
Nature Canada	Stephen Hazell, Director of Conservation and General Counsel
Chamber of Marine Commerce	Bruce Burrows, President
California Air Resources Board	Rajinder Sahota, Assistant Division Chief